

# BUDGET LETTER

<b>SUBJECT:</b> 2009-10 PRICE LETTER	<b>NUMBER:</b> BL 08-18
<b>REFERENCES:</b> BUDGET LETTER 08-07 GOVERNMENT CODE SECTION 13308.05	<b>DATE ISSUED:</b> August 15, 2008 <b>SUPERSEDES:</b> BL 07-17

TO: Agency Secretaries  
Department Directors  
Departmental Budget Officers  
Departmental Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

In order to prepare a workload budget as defined in Government Code Section 13308.05, the Department of Finance (Finance) has determined that departmental budgets should include, as baseline adjustments, funding for price increases. Final funding decisions will be made in the process of developing the Governor's Budget for 2009-10.

Government Code Section 13308.05 authorizes a baseline adjustment for price increase in the budget year only. The base that departments are to use for purposes of calculating the price increase adjustment is total operating expenses and equipment expenditures authorized in the 2008 Budget Act after removing major one-time expenditures, the amount budgeted for Statewide Cost Allocation Plan (SWCAP) recoveries, General Administrative Costs (Pro Rata), and any items that have price increases already built in--e.g., inflation factors incorporated into certain information technology projects. (A subsequent Budget Letter will be issued that addresses SWCAP and Pro Rata planning adjustments.) Departments may then apply to this base amount the U.S. state and local implicit deflator of 3.2 percent. If a department can justify that another methodology may be more appropriate in calculating its budget year price increase, it should submit a Budget Change Proposal fully documenting the need.

In order for these adjustments to be included in the Planning Estimates as baseline adjustments, departments must provide the adjustment for price increase along with any necessary back-up information to their respective Finance Budget Analyst by October 10, 2008. The back-up information must also include a split of the price increase by item of appropriation.

The price adjustment factors included in Attachment 1 are provided for departments' planning and detailed budget-building purposes only. The population projections on Attachment 2 are based on May Revision estimates; updated population data will be available in November.

The Price Letter does not cover the prices of goods and services that are included in the Department of General Services' (DGS) annual **Price Book and Directory of Services**, which is available from the Office of Fiscal Services' website at <http://www ofs.dgs.ca.gov/Price+Book/Default.htm>. The current Price Book and Directory of Services reflects 2007-08 actual rates and includes the 2008-09 proposed rates which will become effective upon the passage of the 2008 Budget Act. The 2008-09 DGS's Price Book is expected to be available in the summer of 2008 and will include proposed rates for 2009-10 which will only become effective upon the passage of the 2009 Budget Act, as they are subject to approval by the Legislature. DGS service rates are submitted annually to Finance for review and oversight through the Governor's Budget development process. Please note that the general price increase will also adjust the Statewide Surcharge funding initially allocated to departments in 2005-06 (as adjusted in 2006-07) that is collected by the DGS annually for centralized costs such as legislative printing. If your Statewide Surcharge allocation is not fully

funded by the allocation received in 2005-06, as adjusted annually by the price increase, a department may submit a Budget Change Proposal, fully documenting the shortfall and need for additional funding. If you have any questions regarding the Price Book or the Statewide Surcharge, please contact DGS, Office of Fiscal Services, Budget and Planning Section, 707 3<sup>rd</sup> Street, West Sacramento, CA 95605, or call Mary Ann DeWitt at (916) 376-5133.

/s/ Mark Hill

Mark Hill  
Program Budget Manager

Attachment

PRICE LETTER STANDARDS  
2009-10

PRICE ADJUSTMENT FACTOR SUMMARY  
(See following text for specific instructions)

UCM Code	Line-Item Object	2008-09 <sup>a</sup>	2009-10 <sup>a</sup>
<b>Personal Services</b>			
103103	OASDI	6.2% on wage ceiling of \$104,250 <sup>b</sup>	6.2% on wage ceiling of \$108,600 <sup>b</sup>
103137	Medicare	1.45% no wage ceiling	1.45% no wage ceiling
103105	Health Benefits-Public Employees	CalPERS average rates will increase by 4.3% on January 1, 2009. Funding for these changes will be addressed in a subsequent Budget Letter.	
103107	Retirement-Public Employees	-0.34%	-0.34%
This is the average change for all plans. Budget instructions for this item will be provided in a forthcoming Budget Letter.			
<b>Operating Expenses</b>			
311223	Library Purchases		
	Monographs	4.9%	5.7%
	Subscriptions	3.5%	8.5%
	Serial Services	1.9%	6.8%
313257	Telephone	c, d	d
314261	Postage	d	d
317292	In-State Travel Per Diem	d	d
324362	Electricity	d	d
324363	Natural Gas <sup>d</sup>	20.7%	21.1%
324364	Liquid Petroleum Gas <sup>d</sup>	-3.9%	-10.1%
325396	Attorney General Services		
	Attorney Services	d	d
	Paralegal Services	d	d

<sup>a</sup> Percentage change over 2007-08 unless specified otherwise.

<sup>b</sup> The tax base for the calendar year 2008 is \$102,000. While official wage bases for the coming years were not finalized by the Social Security Administration at the time this letter was prepared, estimated wage bases of \$106,500 and \$110,700 are used for calendar years 2009 and 2010, respectively, for planning purposes.

<sup>c</sup> Budget at current rates or July 1, 2007 rates if the department's services have not been converted to CalNet II.

<sup>d</sup> See following text.

UCM Code	Line-Item Object	2008-09 <sup>a</sup>	2009-10 <sup>a</sup>
<b>Operating Expenses</b>			
328428	Consolidated Data Center	d	d
333503	Clothing and Personal Supplies <sup>d</sup>	1.2%	1.8%
333504	Medical Care <sup>d</sup>	4.6%	9.4%
333506	Foodstuffs <sup>d</sup>	4.2%	8.7%
333513	Laundry <sup>e</sup>		
	General Linen	37¢/lb.	d
	Personal Clothing	40¢/lb.	d
	California Consumer Price Index - All Urban Consumers	3.4%	6.2%

## OPERATING EXPENSES

### TELEPHONE

The Department of Technology Services, in cooperation with the Department of General Services, awarded four new CALNET 2 Master Service Agreement contracts on January 30, 2007, and is in the process of transitioning CALNET I services to CALNET 2 services. CALNET 2 will continue to offer most of the CALNET I services while also offering new services. Pricing under CALNET 2 remains competitive, allowing customers the choice of low cost basic services or more sophisticated feature rich services. It is anticipated that the transition to CALNET 2 services will be completed by December 2008.

### POSTAGE

The latest postal rates, which went into effect on May 12, 2008, are available at most post office branches, as well as the United States Postal Service's own website at <http://www.usps.com/>.

Current major postage rates, effective since May 12, 2008, are as follows:

First-Class letter: 1 oz.	42 cents
Postcard	27 cents
Priority Mail (Flat Rate Envelope):	\$4.80
Express Mail (Flat Rate Envelope):	\$16.50

The United State Postal Service has indicated that, consistent with the Postal Accountability and Enhancement Act of 2006, the prices for mailing services will be adjusted annually each May after providing 90 days' notice. New prices for shipping services, including Express Mail and Priority Mail, will be announced in March.

<sup>a</sup> Percentage change over 2007-08, unless specified otherwise.

<sup>d</sup> See following text.

<sup>e</sup> Prices do not include transportation charges, which are based on mileage. See following text for detail.

## IN-STATE TRAVEL PER DIEM

For 2008-09 and 2009-10, the reimbursement for lodging, meals and incidentals, and mileage should be budgeted as follows:

### **Lodging –**

### **For each 24-hour period**

- Alameda, San Francisco, San Mateo  
Santa Clara

- With receipt
- Without receipt

up to \$140.00 plus tax  
\$0.00

### **Lodging –**

- Los Angeles and San Diego County

- With receipt
- Without receipt

up to \$110.00 plus tax  
\$0.00

### **Lodging –**

- All other counties

- With receipt
- Without receipt

up to \$84.00 plus tax  
\$0.00

### **Lodging –**

- Conference/Conventions

- Non-State sponsored, with prior written approval of appointing power, with receipt
- State-sponsored, with prior written approval of appointing power, with receipt

no maximum

up to \$110.00 plus tax

### **Meals and Incidentals**

up to \$6.00 for breakfast  
up to \$10.00 for lunch  
up to \$18.00 for dinner  
up to \$6.00 for incidentals

### **Mileage**

\$0.585 per mile

The aforementioned amounts reflect the current reimbursement rates for excluded and represented state employees.

Departments are advised to use the above rates for budgeting purposes until the Department of Personnel Administration provides notification of any changes that result from collective bargaining. Actual rates are determined by collective bargaining agreements and may vary by bargaining unit.

## HEAT, LIGHT, AND POWER

### Electricity

All the major electric utilities have several rate schedules, which are based upon the customer's maximum kilowatt demand and tend to increase costs to the customer as maximum demand increases. Departments should verify that they are being billed on the correct schedule and make every reasonable effort to reduce their maximum demand. The utilities are willing and able to offer advice in this area.

The overall electrical rates charged by major investor-owned and municipal utilities are expected to change over 2007-08 as follows:

	2008-09	2009-10
Pacific Gas & Electric Company	6.3%	6.3%
Southern California Edison	5.4%	5.4%
San Diego Gas and Electric Company	6.9%	6.9%
Los Angeles Dept. of Water & Power	9.0%	9.0%
Sacramento Municipal Utility District	10.8%	10.8%

### Natural Gas

Natural gas should be budgeted for 2008-09 and 2009-10 at 20.7 percent and 21.1 percent, respectively, above 2007-08 actual expenditures.

### Fuel Oil and Liquefied Petroleum Gas

Departments are advised to budget liquefied petroleum gas 2008-09 and 2009-10 at 3.9 percent and 10.1 percent **below** 2007-08 actual expenditures, respectively. Departments should budget fuel oil at current market rates.

## ATTORNEY GENERAL'S LEGAL SERVICES RATE

Effective July 2007, departments have been advised to budget Attorney Services and Paralegal Services at \$158 per hour and \$101 per hour, respectively, for 2007-08. State departments receiving services from the Department of Justice are subject to these rates. At the time this Budget Letter was prepared, the Attorney General's legal services rates for 2008-09 and 2009-10 have not been finalized but are expected to increase from the 2007-08 rates. If rate changes are needed for 2008-09 and 2009-10, departments will be notified of the increases in a subsequent Budget Letter.

## CONSOLIDATED DATA CENTER SERVICES

The Department of Technology Services (DTS) announced its third phase billing rate changes for 2007-08 and 2008-09 adopted by the Technology Services Board on January 23, 2008. This was the third of three rate adjustment phases designed to consolidate DTS service offerings. The first phase was announced on July 1, 2006, and DTS rates were reduced by approximately \$16.3 million. The second adjustment addressed additional service areas and provided further decreases to rates, in the amount of annual cost savings to DTS customers of \$26.7 million. The third adjustment was for 2007-08 as well as 2008-09, as DTS nears completion of the consolidation of service offerings and rates. This package resulted in less than a 1-percent revenue increase for both fiscal years. Although the net effect of the rate packages represents a significant cost reduction, individual departments may have a net cost increase. Budget Control Section 15.25 authorizes the Director of Finance to adjust department budgets up or down to reflect the net impact of the rate packages adopted in 2008 or 2009, provided the overall General Fund cost does not increase.

Department of Finance will issue a subsequent Budget Letter with instructions on how to calculate the net impact of adopted rate changes on department operating budgets for 2008-09. The published rates charged for various services continue to be reviewed and it is likely the DTS will modify rates at least once during 2008-09 and again in 2009-10. Subsequent instructions will be issued if additional budgetary changes are necessary based on future rate changes.

For 2009-10, departments should develop budgets based on current published rates and departmental usage patterns. The DTS billing rates schedule can be found on the DTS website at [www.dts.ca.gov](http://www.dts.ca.gov), by navigating to "Customer Resources" and then "Rates". DTS Rates and Cost Recovery Unit personnel are also available to discuss a customer's perceived funding adequacy.

For departments that use CALSTARS running on DTS' data processing systems, suggested amounts for their 2008-09 interagency agreements have been developed and are available to those departments. As a whole, CALSTARS departments can expect a 1-percent increase in CALSTARS interagency agreement amounts in 2008-09, although changes in interagency agreement amounts for individual departments may vary. For additional information, departments may contact Ms. Anna Rojas of the DTS at (916) 739-7547 (or e-mail at: [Anna.Rojas@dts.ca.gov](mailto:Anna.Rojas@dts.ca.gov)).

## **CLOTHING**

Clothing and personal supplies should be budgeted for 2008-09 and 2009-10 at 1.2 percent and 1.8 percent, respectively, above 2007-08 actual expenditures.

## **MEDICAL CARE SUPPLIES**

Departments should budget contract items at current prices. Budget the remaining items for 2008-09 and 2009-10 at 4.6 percent and 9.4 percent, respectively, above 2007-08 actual expenditures.

## **FOODSTUFFS (FEEDING)**

Budget feeding costs for 2008-09 and 2009-10 at 4.2 percent and 8.7 percent, respectively, above 2007-08 actual expenditures.

## **LAUNDRY**

Laundry prices for departments served by state correctional institutions should be budgeted as follows:

<b>Service</b>	<b>2008-09</b>
General Linen	37¢/lb.
Personal Clothing	40¢/lb.
Special Handling	46¢/lb.

These prices do not include mileage-based transportation costs, which are as follows:

<b>Round Trip Mileage</b>	<b>Charge Per Trip</b>
1-25	\$125.00
26-50	235.00
51-75	330.00
76-100	450.00
101-125	465.00
126-150	515.00
151-175	600.00
176-200	680.00
201-225	755.00
226-250	820.00
251-300	990.00
301-350	1,150.00

At the time this letter was prepared, the Prison Industry Authority did not have the estimated increases for 2009-10 available.

#### **OVERALL CONSUMER PRICE INFLATION**

The Economic Research Unit of Finance forecasts the California Consumer Price Index for all urban consumers (CPI-U) and several other price indexes in May and December. The most current California CPI-U forecast predicts that overall consumer prices will rise by 3.4 percent and 6.2 percent in 2008-09 and 2009-10, respectively, over 2007-08. However, departments are advised that while the CPI-U is believed to represent overall consumer prices, this index may be inappropriate for use in predicting the inflation trends for certain types of purchases. Furthermore, it is suggested that departments wishing to use CPIs to help forecast their expenditures contact the Economic Research Unit at (916) 322-2263 for the most recent available forecast.



## POPULATION

California's total population on July 1, 2008 is projected at 38,227,000—an increase of 441,000 over the number residing in the state on the same date last year. Civilian population on July 1, 2008, the essential figure for most budget computations, is 38,071,000. This represents a growth of 440,000 over the past 12 months. Current projections for mid-2009 place the total population at 38,687,000—an increase of approximately 1.2 percent for total population from the preceding July 1. The total population as of July 1, 2010 is expected to be 39,171,000, of which 39,015,000 would be civilians. These data are summarized in Table 1.

Table 1. ESTIMATED POPULATION OF CALIFORNIA, 2006-2010  
(in thousands)

<u>July 1</u>	<u>Total</u> <u>Population</u>	<u>Civilian</u> <u>Population</u>	<u>One-year change</u>	
			<u>Total</u>	<u>Civilian</u>
2006	37,333	37,176	---	---
2007	37,786	37,631	453	455
2008	38,227	38,071	441	440
2009	38,687	38,532	460	461
2010	39,171	39,015	484	483

Table 2 shows the civilian population for the years 2006-2010 distributed by five-year age groups. This distribution is based upon the results of the April 1, 2000, decennial census, Department of Finance estimates, and the most recent Department of Finance projection series.

Table 2. ESTIMATES OF CALIFORNIA'S CIVILIAN POPULATION BY AGE  
(in thousands)

<u>Age in</u> <u>Years</u>	<u>7/1/2006</u>	<u>7/1/2007</u>	<u>7/1/2008</u>	<u>7/1/2009</u>	<u>7/1/2010</u>
0-4	2,721	2,757	2,783	2,811	2,838
5-9	2,594	2,619	2,663	2,711	2,761
10-14	2,807	2,763	2,718	2,680	2,655
15-19	2,847	2,910	2,943	2,954	2,937
20-24	2,630	2,655	2,694	2,759	2,845
25-29	2,635	2,676	2,716	2,747	2,772
30-34	2,678	2,667	2,669	2,689	2,718
35-39	2,847	2,864	2,860	2,834	2,789
40-44	2,864	2,844	2,828	2,825	2,854
45-49	2,772	2,815	2,848	2,884	2,889
50-54	2,426	2,501	2,571	2,630	2,695
55-59	2,071	2,109	2,159	2,222	2,289
60-64	1,482	1,593	1,685	1,775	1,879
65+	3,802	3,858	3,934	4,011	4,094
Total	37,176	37,631	38,071	38,532	39,015